

## Message Text

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ACTION EUR-12

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TAGS: ENRG, ECON, UR

SUBJECT: SOVIET OIL MINISTER SUGGESTS INCREASE IN DOMESTIC PRICE  
OF OIL

REF: (A) MOSCOW A-383; (B) MOSCOW 12765

1. SUMMARY - IN CONTEXT RECENT PRAVDA ARTICLE OUTLINING  
PRIORITIES IN OIL INDUSTRY DURING TENTH FIVE-YEAR-PLAN (1976-  
80), SOVIET OIL MINISTER SHASHIN HAS SUGGESTED THAT ONLY WAY  
TO EFFECT NECESSARY OIL CONSERVATION MEASURES IN USSR IS TO  
INCREASE DOMESTIC PRICE OF OIL. THIS HINT, WHICH MAY BE  
OPENING ROUND IN BROADER DEBATE ON SUBJECT, APPARENTLY  
REFLECTS SHASHIN'S CONCLUSION THAT OIL ECONOMY EFFORTS MUST  
PROCEED SIMULTANEOUSLY WITH PLANS TO INCREASE OIL PRODUCTION  
LEST INCREASES IN DOMESTIC CONSUMPTION REDUCE AMOUNTS AVAIL-  
ABLE FOR HARD CURRENCY EXPORTS OR OTHER PRIORITY OBJECTIVES.  
END SUMMARY.

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2. PRAVDA, DECEMBER 18, CARRIED SIGNED ARTICLE BY MINISTER OF OIL INDUSTRY, V. SHASHIN, WHO STATES THAT MAJOR ACCOMPLISHMENTS OF USSR OIL INDUSTRY DURING NINTH FIVE-YEAR PLAN (1971-75) INCLUDED EXTENSION OF LENGTH OF USSR OIL PIPELINES BY 1.6 TIMES, ACHIEVEMENT OF PROGRAM OF COMPLEX AUTOMATION OF OIL EXTRACTION (PERMITS EXPLOITATION OF NEW FIELDS TWO-THREE TIMES FASTER THAN OLD METHODS), AND MOVEMENT TO TWO-TIER SYSTEM OF MANAGEMENT (MINISTRY-PRODUCTION ASSOCIATION) THROUGH CONSOLIDATION OF SMALL OIL FIELDS INTO ONE LARGE TERRITORIAL-PRODUCTION ASSOCIATION. IN NOT DISTANT FUTURE, SHASHIN FORESEES COMPLETELY AUTOMATED FIELDS, WORKING WITHOUT SERVICE PERSONNEL AND MANAGED FROM A DISTANCE OF 100-200 KILOMETERS. THIS WOULD PERMIT EXPLOITATION OF FIELDS IN DIFFICULT AREAS WITHOUT NEED FOR CONSTRUCTING NEW CITIES, INDUSTRIAL BASES AND COMMUNICATION LINKS.

3. PRIORITIES, BEYOND CONTINUATION THOSE MENTIONED IN PARA 1, FOR TENTH FIVE-YEAR PLAN (1976-80) INCLUDE SOLUTION OF IMPORTANT TASK OF FULLY UTILIZING DEEPLYING RESOURCES. KEY METHOD IS INCREASE BEYOND 75 PERCENT RATE ALREADY REACHED OF OIL RECOVERY, PRINCIPALLY BY MEANS OF PUMPING WATER UNDER HIGH PRESSURE INTO STRATA. INCREASED RATE OF RECOVERY WOULD HELP MAINTAIN LEVELS OF PRODUCTION IN OLD OIL FIELDS. LARGE LOSSES OF OIL-ASSOCIATED GAS ARE TO BE OVERCOME BY CONSTRUCTING MORE GAS TREATMENT PLANTS IN OIL PRODUCING AREAS. ACCORDING TO SHASHIN, PLANTS ARE TO BE BUILT IN WEST SIBERIA WHICH WILL BE CAPABLE OF TREATING ABOUT 14 BILLION CUBIC METERS OF GAS PER YEAR. AND, HE STATES, THAT NECESSARY EXPANSION OF OIL PRODUCTION MUST ENTAIL A LARGE INCREASE IN SOURCES OF SUPPLY. BROAD-SCALE EXPLORATORY WORK MUST BE DONE IN EAST SIBERIA, NORTH EUROPEAN PART OF USSR, SHELF-ZONES OF SEA, AND IN "PRE-CASPIAN DESPRESION". (COMMENT - RECENTLY PUBLISHED TENTH FIVE-YEAR PLAN DIRECTIVES CALL FOR PRODUCTION OF 620-640 MILLION TONS OF OIL, INCLUDING GAS CONDENSATE, BY 1980. END COMMENT)

4. STATEMENT OF NEED FOR INCREASED EXPLORATORY WORK IS IMMEDIATELY FOLLOWED BY BRIEF PARAGRAPH: QTE DESPITE LIMITED OFFICIAL USE

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GOOD PROSPECTS FOR DISCOVERING NEW SOURCES OF SUPPLY, TIME HAS COME TO CHANGE OUR ATTITUDE ON USE OF OIL. ESTABLISHED SELLING PRICES (SLOZHIVSHIESYA OTPUSKNYE TSENY) ARE NOT CONDUCIVE TO SAVING OF THIS IRREPLACEABLE AND EXCEPTIONALLY VALUABLE RAW MATERIAL. UNQTE

5. COMMENT - THE OVERALL LINES OF DEVELOPMENT FOR NEXT FIVE YEARS ARE CONSISTENT WITH THOSE PREVIOUSLY

ENUNCIATED BY SHASHIN (REF B). HIS STRONG HINT OF NEED FOR INCREASE IN DOMESTIC PRICE OF OIL IS IN KEEPING WITH SHASHIN'S PREVIOUS PROPOSAL FOR PRICE REFORM TO STIMULATE TIMELY PRODUCTION OF NEW OIL FIELD EQUIPMENT (REF A), BUT TO EMBASSY'S KNOWLEDGE THIS IS HIS FIRST PUBLISHED STATEMENT TO EFFECT THAT DOMESTIC DEMAND MUST BE CURBED BY INCREASED PRICES. AS SHASHIN HAS NOW IMPLIED, EVEN IF PROJECTED PRODUCTION LEVELS FOR 1980 CAN BE REACHED, PRIORITIES SUCH AS HARD CURRENCY EXPORTS MAY NOT BE MAINTAINED AT DESIRED LEVELS UNLESS DOMESTIC DEMAND CAN BE LIMITED. AND WHEN SHASHIN'S EARLIER PUBLIC STATEMENTS (REF A) DEALING WITH PROBLEMS IN OIL DRILLING AND EXPLORATION ARE RECALLED, CONSERVATION PROGRAM WOULD SEEM EVEN MORE NECESSARY. STOESSEL

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